

FARM MANAGEMENT IN THE 80'S

**SOME THINGS CHANGE
OTHERS DON'T**

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NOVEMBER 1984**

DEFINITION OF MANAGEMENT HAS NOT CHANGED

**MAKING, IMPLEMENTING, AND ACCEPTING
RESPONSIBILITY FOR DECISIONS**

TO

**CONTINUOUSLY MAXIMIZE NET RETURNS TO
OWNED/CONTROLLED RESOURCES -- WITHIN
OPERATOR/FAMILY OBJECTIVES**

FUNCTIONS OF MANAGEMENT HAVE NOT CHANGED

PLANNING

ORGANIZING

DIRECTING

CONTROLLING

DECISION MAKING PROCESS HAS NOT CHANGED

DEFINE PROBLEM

COLLECT RELEVANT INFORMATION

IDENTIFY AND EVALUATE ALTERNATIVES

SELECT BEST ALTERNATIVE

IMPLEMENT DECISION

MEASURE AND EVALUATE CONSEQUENCES

**THE DEFINITION OF PROFIT
HAS NOT CHANGED**

PROFIT = TOTAL RECEIPTS - TOTAL COSTS

**NECESSITY FOR PROFIT
HAS NOT CHANGED**

GOOD PREDICTORS OF PROFIT HAVE NOT CHANGED

**SIZE
RATES OF PRODUCTION
LABOR EFFICIENCY
CAPITAL EFFICIENCY
COST CONTROL
MARKETING / PURCHASING**

ECONOMIC PRINCIPLES HAVE NOT CHANGED

PRODUCTION PROCESS

INPUTS

PRODUCTS

COST CONCEPTS

VARIABLE

FIXED

LONG RUN

SHORT RUN

AVERAGE

MARGINAL

TOTAL

ECONOMIES

DISECONOMIES

OPPORTUNITY

DIRT 5

WHAT HAS CHANGED?

WHAT HAS CHANGED?

WHAT HAS CHANGED?

**WHAT WILL BE
CHANGING?**

**WHAT WILL BE
CHANGING?**

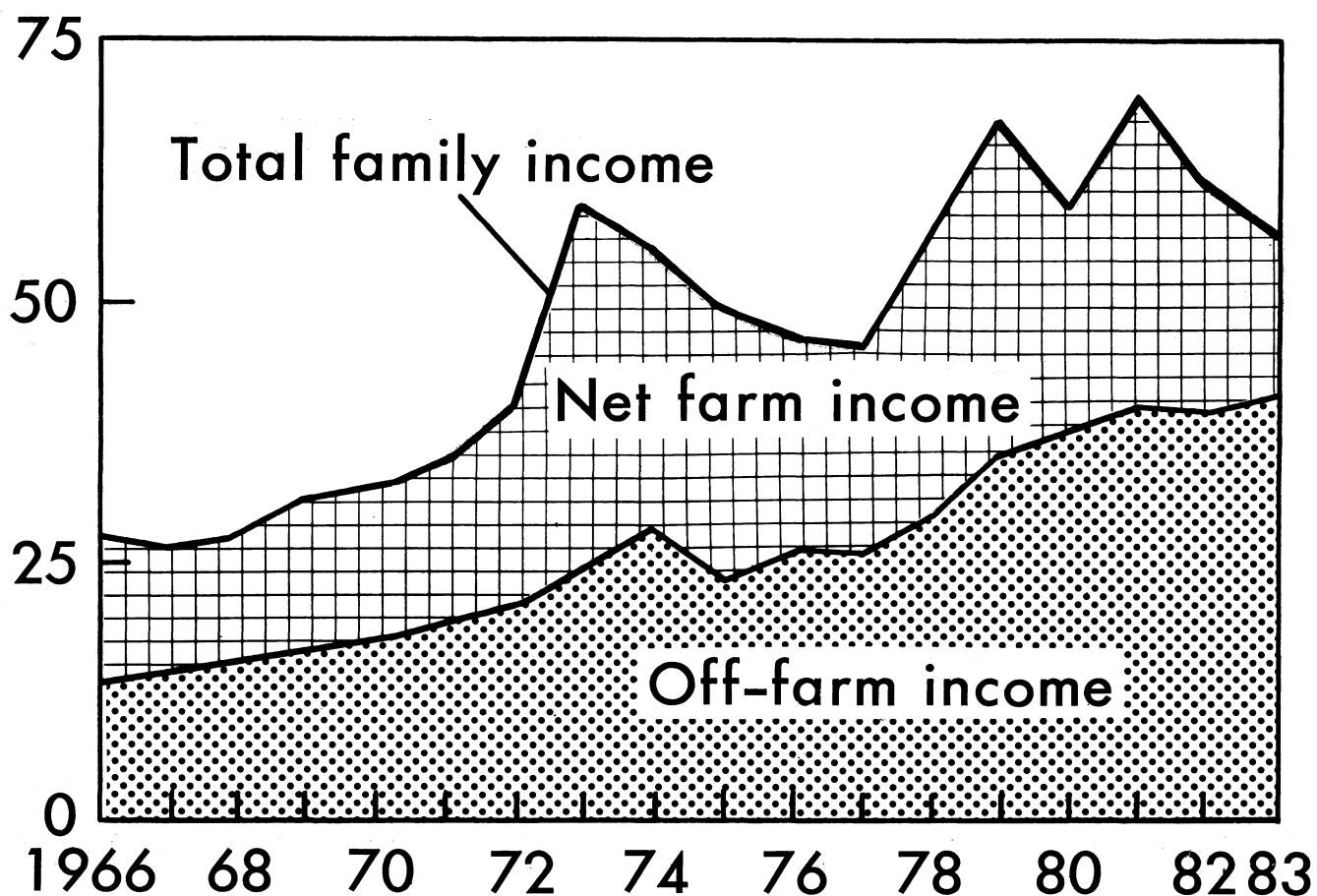
TWO IMPORTANT QUESTIONS

WHAT HAS CHANGED?

WHAT WILL CHANGE?

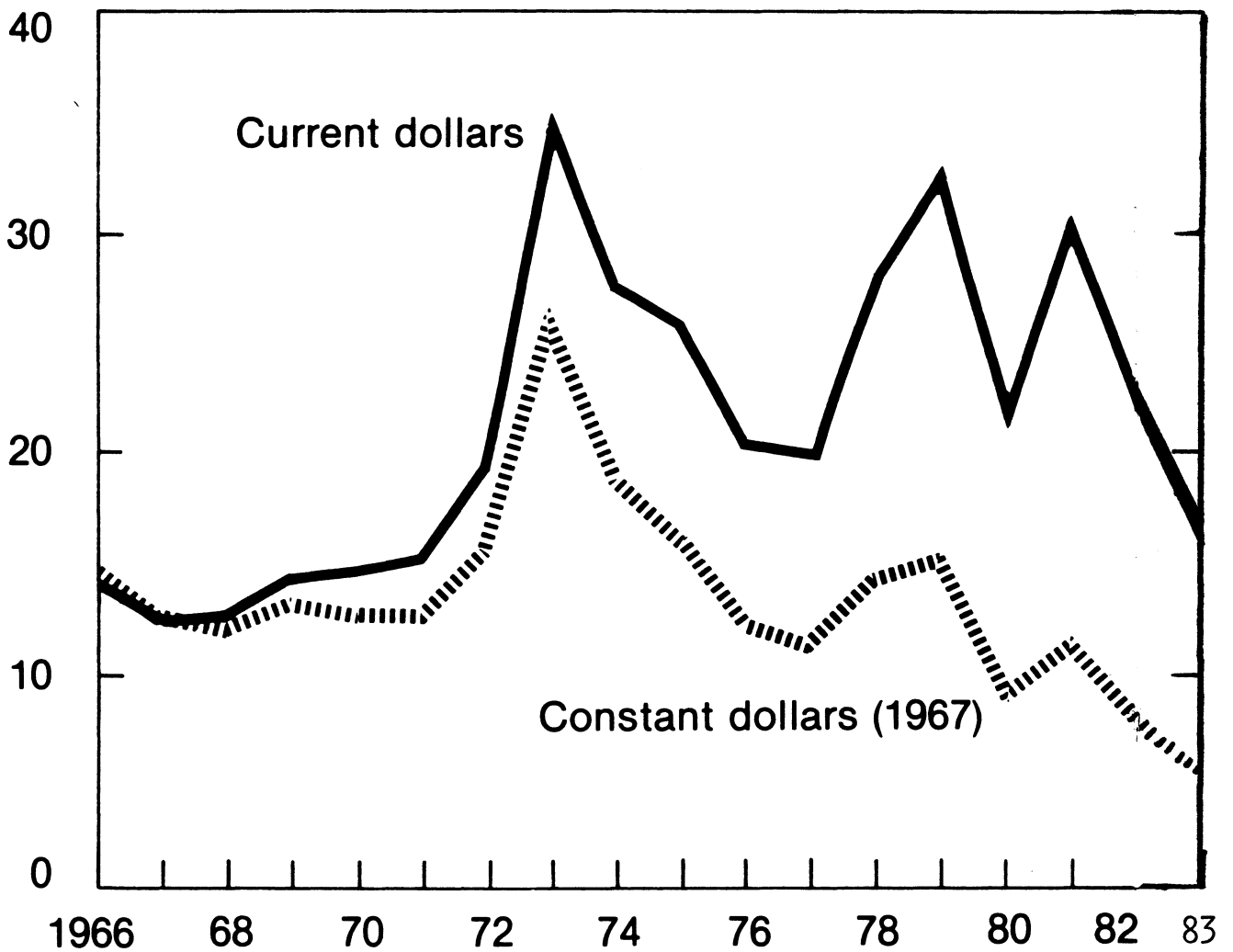
SOURCE OF INCOME FOR FARM FAMILIES HAS CHANGED

\$ billion



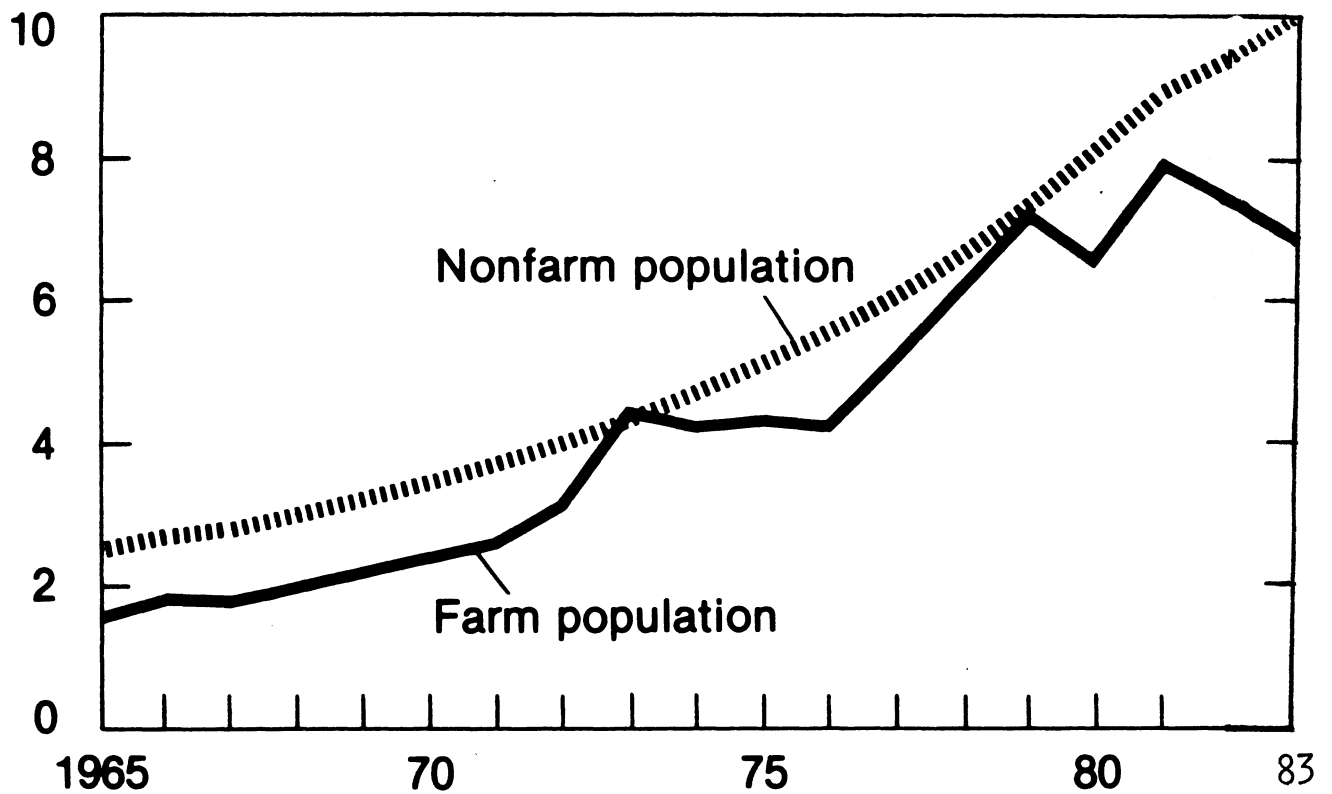
NET FARM INCOME HAS CHANGED

\$ billion



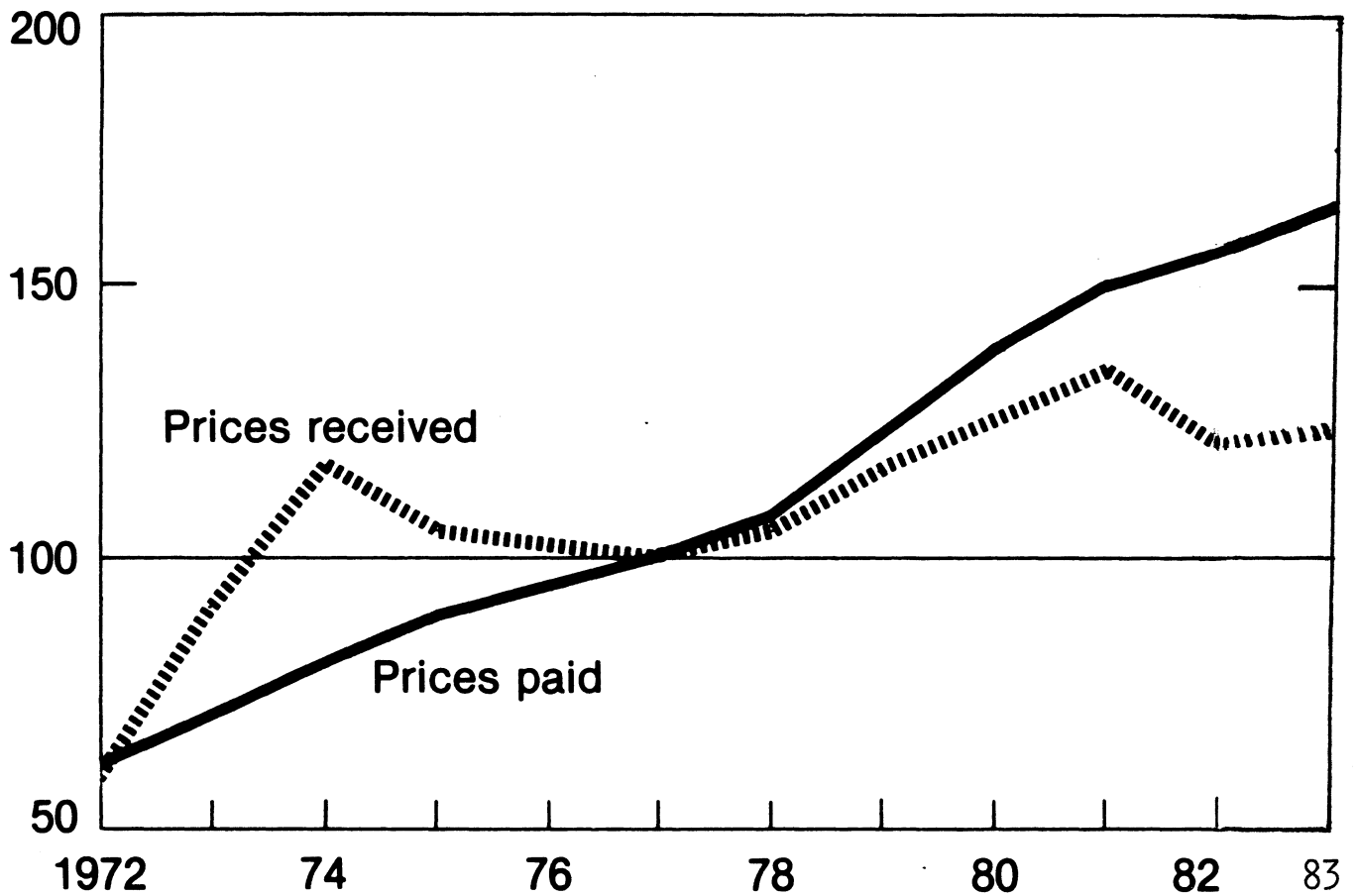
DISPOSABLE INCOME PER CAPITA HAS CHANGED

\$ thousand

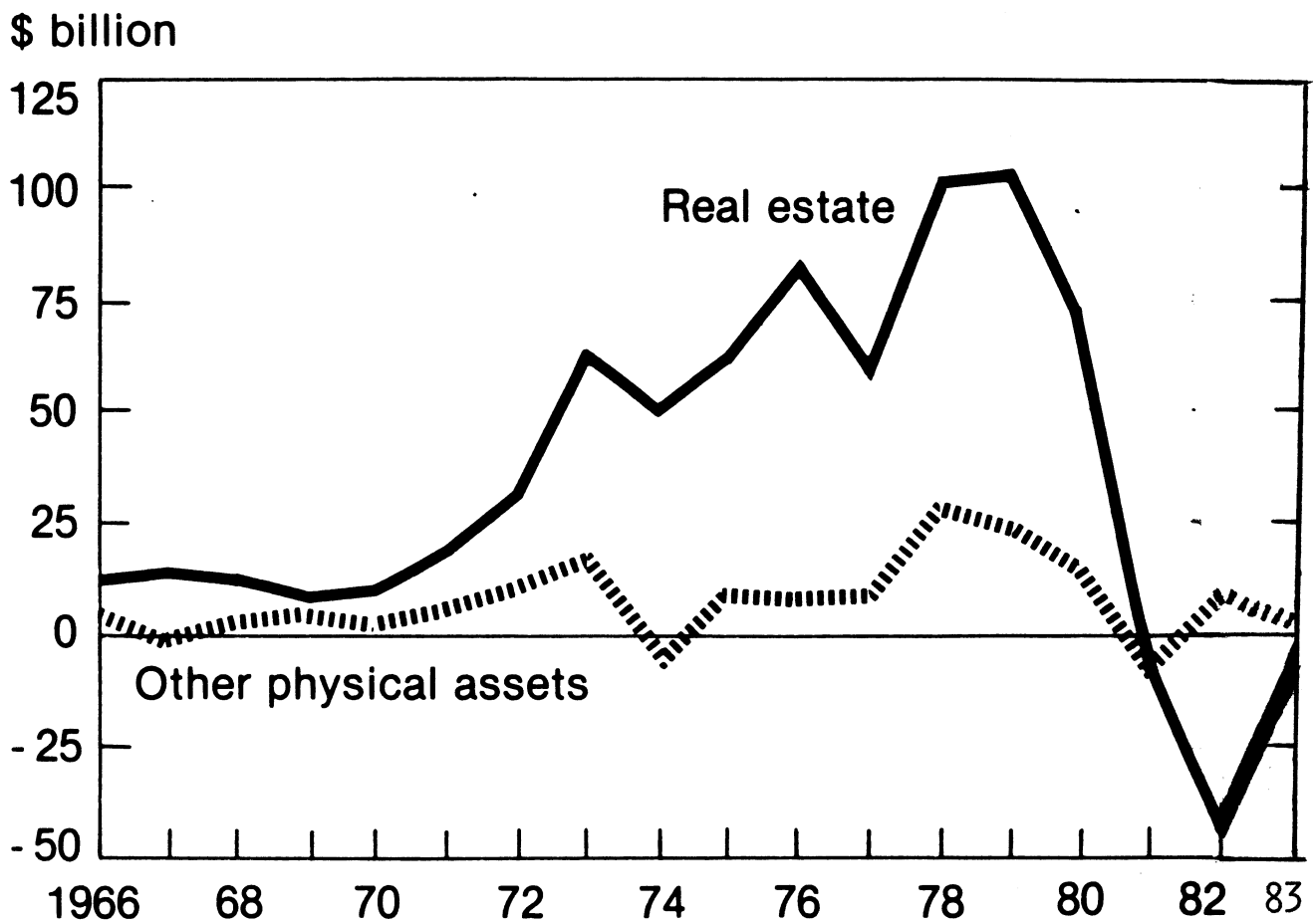


RELATIONSHIP OF PRICES PAID/RECEIVED HAS CHANGED

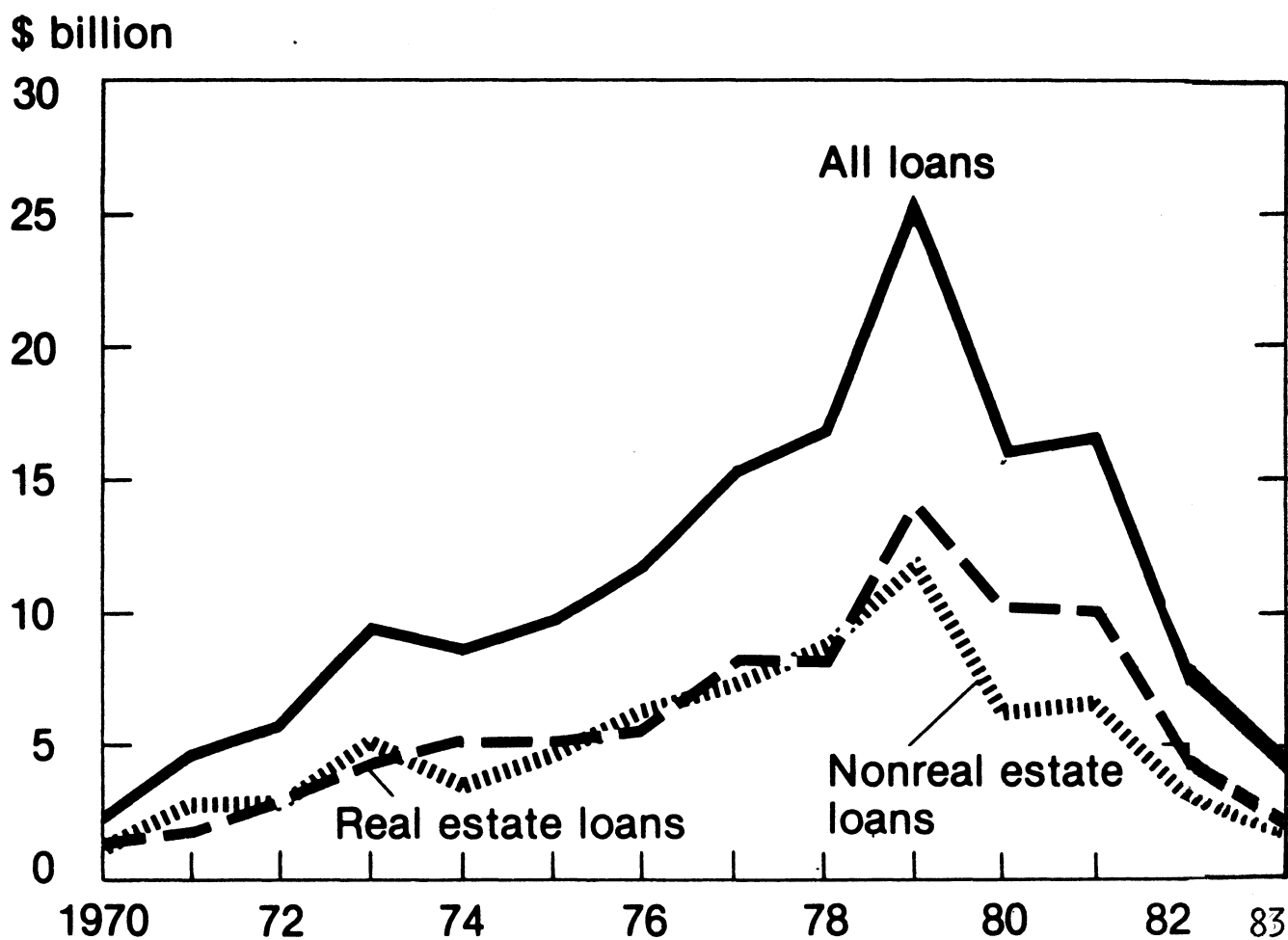
% of 1977



CAPITAL GAINS ON FARMS HAS CHANGED



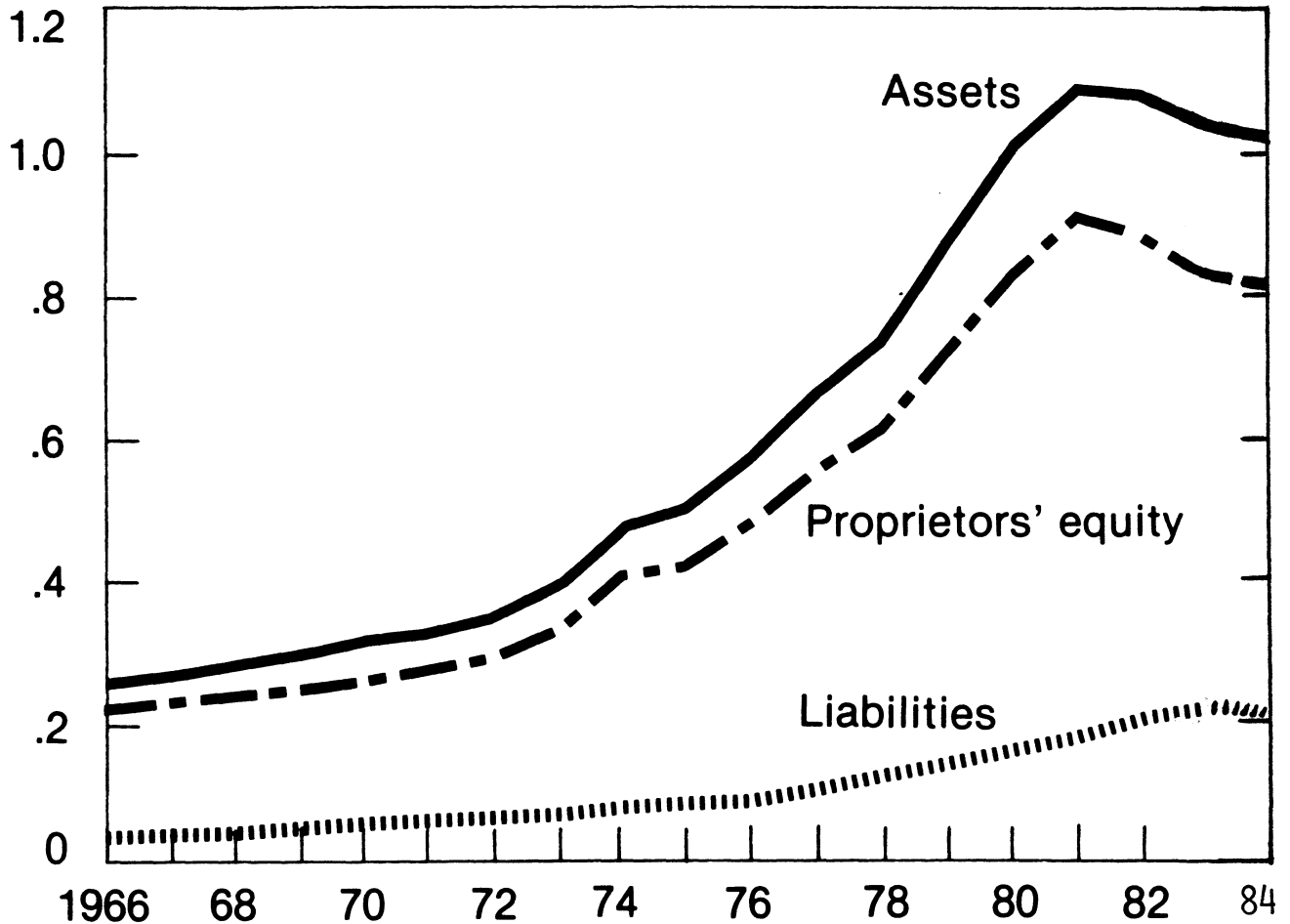
GROWTH OF FARM DEBT HAS CHANGED



1983 preliminary. Difference between debt outstanding at beginning and end of year. Excludes Commodity Credit Corporation loans.

THE U.S. FARM BALANCE SHEET HAS CHANGED

\$ trillion



1984 preliminary. Data as of January 1. Includes farm households.

THE VALUE OF FARMLAND HAS CHANGED

VALUE PER ACRE INDEX

	U.S.	OHIO
1977	100	100
1979	125	138
1981	158	160
1983	148	121
1984	146	116

THE FARM DEBT/ASSET RATIO HAS CHANGED

U.S DEBT/ASSET RATIO (%)

1940	19
1950	9
1960	12
1970	17
1980	16
1984	21

RETURN TO FARM EQUITY CAPITAL HAS CHANGED

RESIDUAL RETURN TO EQUITY (%)

1975	4.9
1979	3.4
1980	1.3
1981	2.1
1982	1.3
1983	.5

THE ABILITY TO SERVICE FARM DEBT HAS CHANGED

NET CASH INCOME FROM FARMING

(BILLION \$)

1978	36.3
1979	38.4
1980	37.3
1981	33.0
1982	28.5
1983	44.7

SUMMARY OF WHAT HAS CHANGED

ECONOMIC CLIMATE HAS CHANGED

**A NEW ECONOMIC CLIMATE REQUIRES
MANAGEMENT ADJUST TO THE NEW
REALITY IF THE BUSINESS
IS TO SURVIVE**

HISTORY IS A GOOD TEACHER

GOOD MANAGERS UNDERSTAND
HISTORY BUT DON'T
LET IT HINDER
THEIR VIEW
OF THE
FUTURE

I.E. ALL TOO OFTEN WE PROJECT
THE PAST INTO THE FUTURE

IN THE 70'S MOST FARMERS USED MANAGEMENT STRATEGIES
THAT WERE RESPONSIBLE FOR SUCCESS IN THE
60'S

P R O D U C T I O N
G R O W T H

AND OVERLOOKED STRATEGIES THAT RESULTED IN SUCCESS
DURING THE
70'S

M A R K E T I N G
F I N A N C I A L M A N A G E M E N T

FARM MANAGERS ARE IN DANGER
OF MAKING THE SAME
MISTAKE AGAIN

NOT PERCEIVING CHANGES
THINKING CHANGES CAN'T LAST
THINKING PAST WILL RETURN

EMPHASIZE STRATEGIES THAT
WERE SUCCESSFUL IN THE
70'S

MANAGEMENT AJUSTMENTS ONLY TWO OPTIONS

INCREASE RECEIPTS

**INCREASE UNITS
INCREASE PRICE**

DECREASE COSTS

**VARIABLE
FIXED**

IN THE NEW ECONOMIC CLIMATE

FARM MANAGERS WILL FIND

DECREASING COSTS

EASIER THAN

INCREASING RECEIPTS

NEW ECONOMIC CLIMATE WILL

REQUIRE AND REWARD

COST CONTROL

NOT

MARKETING

(AS IT WAS IN 70'S)

SUCCESSFUL FARM MANAGERS IN THE 80'S WILL TURN THEIR ATTENTION
TO THESE COST REDUCING STRATEGIES:

1. SUBSTITUTE LABOR FOR CAPITAL
2. INPUT PURCHASING
3. RE-NEGOTIATE RENT
4. SELL UNPRODUCTIVE ASSETS
5. IMPROVE PRODUCTION EFFICIENCY
6. IMPROVE LABOR EFFICIENCY
7. IMPROVE CAPITAL EFFICIENCY
8. ADOPT COST REDUCING TECHNOLOGY
9. REDUCE DEBT
10. SPREAD OVERHEAD COSTS
11. USE EQUIPMENT LONGER

B E L I E V E I T

A FUNDAMENTAL CHANGE HAS/IS OCCURRING

FOOD IS/WILL BE IN SURPLUS

ASSET VALUES HAVE/ARE/WILL DEFLATE

COMMODITY PRICES HAVE/ARE/WILL DECLINE

T H I S M E A N S

PRICE STABILITY

TARGETED GOVERNMENT PROGRAMS

LOW EARNINGS

ASSET CONTROL NOT OWNERSHIP

LOW COST PRODUCERS WILL SURVIVE

B E P R E P A R E D

O P P O R T U N I T Y

BIO- AND HIGH TECHNOLOGY

APPLICATIONS ON FARMS

WILL BE COST REDUCING

E A R L Y A D O P T E R S W I L L

R E A P R E W A R D S

